

ORIGINAL

SOUTHWESTERN
Power Group II, LLC
An Energy Company - Alliance Builder



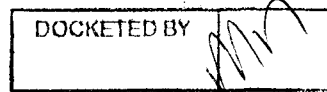
Docket No. E-00000A-09-0066

April 15, 2009

Arizona Corporation Commission
DOCKETED

APR 16 2009

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007



RECEIVED
2009 APR 16 P 3:35
AZ CORP COMMISSION
DOCKET CONTROL

Subject: Docket No. E-00000A-09-0066
Finance Subcommittee
Renewable Transmission Task Force

To Whom It May Concern:

The Arizona Corporation Commission ("Commission") opened Docket No. E-00000A-09-0066 *"In the matter of the Commission's generic docket for information gathering concerning renewable transmission issues identified in the Fifth Biennial Transmission Assessment final order as required in Decision No. 70635"*.

The Finance Subcommittee of the Renewable Transmission Task Force ("RTTF"), which itself is a committee of the Southwest Area Transmission Study Group ("SWAT"), was created on January 8, 2009. This Subcommittee was directed to investigate and recommend to the RTTF methods for financing renewable transmission projects in Arizona, as was contemplated by the Commission in Decision No. 70635.

The Finance Subcommittee is submitting an Interim Report, dated as of April 11, 2009, into the above docket. The Interim Report provides information on the activities of the Finance Subcommittee during the period of January through March of 2009. It consists of an Executive Summary, Subcommittee Work To-Date, Areas of Inquiry, and supporting Appendices.

The Finance Subcommittee was also directed to provide support to the utilities responsible for the Workshop that was suggested by the Commission in Decision No. 70635. In addition to the Interim Report, this submittal into the above docket includes the presentation intended for the participants in a Workshop that is scheduled for April 20, 2009.

Please direct any questions that may arise from this filing to the undersigned at (602) 808-2004.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom C. Wray". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Tom C. Wray
Chairman, Finance Subcommittee
Renewable Transmission Task Force

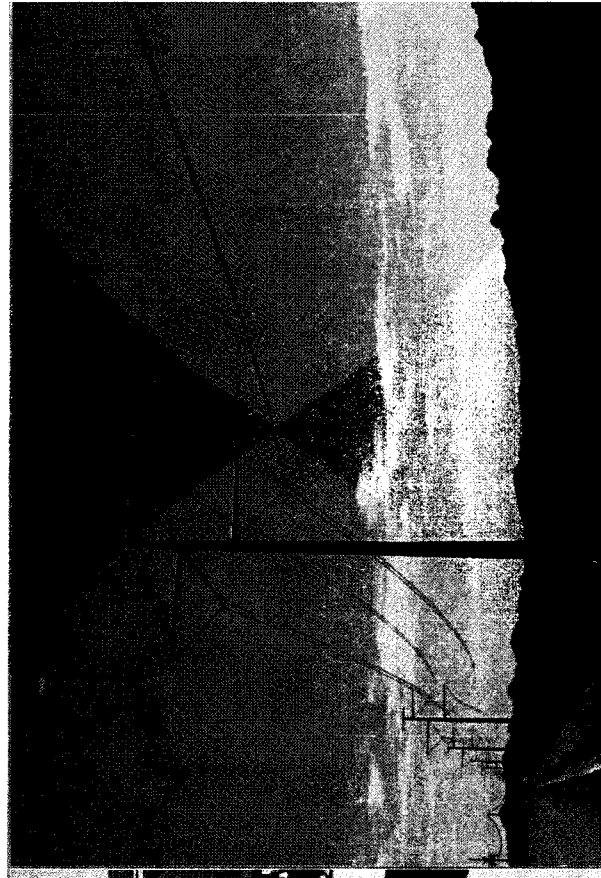
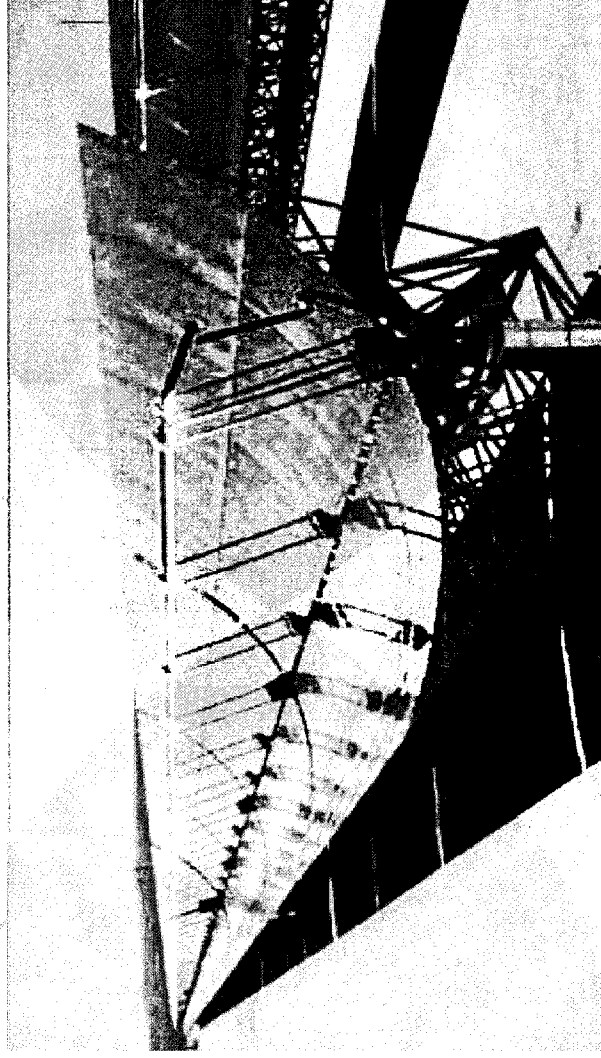
2 Attachments

Cc: File

Peter Krzykos, Chairman, RTTF
Robert Kondziolka, Chairman, SWAT



Review of RTTF FINANCE SUBCOMMITTEE Activity



Workshop on Transmission to Support Renewable Energy Development

April 20, 2009

Chairman: Tom Wray

Finance Subcommittee Purpose

The RTTF created the Finance Subcommittee on 1/8/2009 in response to ACC Order No. 70635 (12/11/2008).

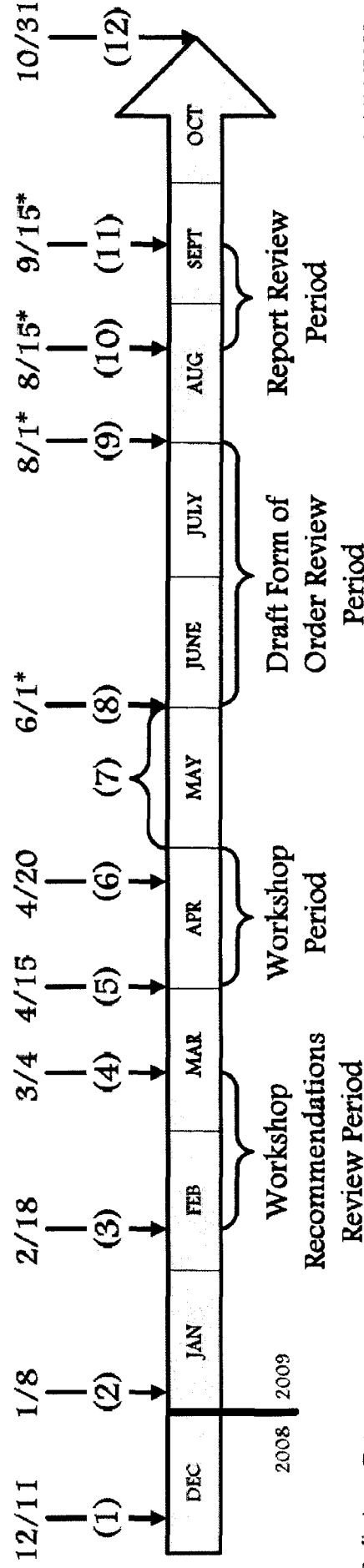
- Primary Objective: Provide the RTTF with recommendations for financing methodologies for renewable transmission projects (RTP) in Arizona.
- Provide information and support for the utilities responsible for the April 20th Workshop.

Finance Subcommittee Activities

- Meeting No. 1 (2~28~2009)
- Meeting No. 2 (3~4~2009)
- Interim Report
- April 20th Workshop Support
- Follow-up activities after the Workshop
- Re-assess work plan for the summer and issue a Final Report by September 2009

RTTF Finance Subcommittee: Timeline

- (1) 12/11/08 ACC issues Order No. 70635
- (2) 1/8/09 RTTF creates subcommittees: a) AARTIS b) Project Finance
- (3) 2/18/09 Meeting No. 1: Define Scope; Schedule; RTP Definition; Deliverables
- (4) 3/4/09 Meeting No. 2: Finalize Workshop Recommendations
- (5) 4/15/09 Submit Interim Report to RTTF
- (6) 4/20/09 Workshop Date
- (7) 5/09 Based on Workshop, RTTF reviews subcommittee scope of investigation
- (8) 6/1/09* Meeting No. 3: Discuss and develop Draft Form of Order; initiate review
- (9) 8/1/09* Meeting No. 4: Conclude Review of Draft Form of Order
- (10) 8/15/09* Issue Draft Report to Subcommittee and initiate review
- (11) 9/15/09* Issue Final Report to RTTF with Draft Form of Order
- (12) 10/31/09 Utilities respond to order No. 70635: "...funding mechanisms... shall be filed with the Commission no later than October 31, 2009..."



*Preliminary Dates

Revised: 4/11/2009



Meeting No. 1 (2/18/2009)

Discussion Items

- ★ Overview of SWAT and RTTF
- ★ 5th BTA, ACC Order No. 70635
- ★ Subcommittee's Scope and Schedule
- ★ Timeline for Activities
- ★ Potential Working Definitions for RTPs
- ★ Possible Subcommittee Deliverables

Meeting No. 2 (3/4/2009)

Discussion Items

- ★ Cost Recovery Methodologies for RTP investments
- ★ Allocation of Base and Incentive Returns on Equity for Developing RTPs – General Discussion
- ★ Transmission Capacity Subscription Methodologies
- ★ Potential Working Definitions for RTPs
- ★ Recent FERC Policies and Relevant Orders
- ★ Legislative Developments

Interim Report

- Provided to the Chairmen of SWAT and RTTF
- Filed in the ACC Open Docket that is intended to gather information regarding renewable transmission issues
- Report includes the following parts:
 - ★ Introduction/Executive Summary
 - ★ Subcommittee Work To-Date
 - ★ Areas of Inquiry
 - ★ Appendices

Subcommittee Contact Information

Cindy Bailey

cbailey@southwesternpower.com

Tom Wray

twray@southwesternpower.com

South Western Power

Main Phone: (602) 808-2004

An
INTERIM REPORT

On the Activities of the

Finance Subcommittee

Renewable Transmission Task Force

Southwest Area Transmission Planning Group

Revised April 11, 2009

Introduction

This Interim Report of the Finance Subcommittee of the Renewable Transmission Task Force provides information on the activities of the Subcommittee during the period of January-March 2009. It consists of an Executive Summary, Subcommittee Work To Date, Areas of Inquiry, and supporting Appendices.

Executive Summary

The Renewable Transmission Task Force established the RTTF Finance Subcommittee on January 8, 2009. This action was taken to provide supplemental information for the regulated utilities to consider as part of their response to Arizona Corporation Commission (ACC) Order No. 70635, issued on December 11, 2008.

The Finance Subcommittee was assigned the tasks of investigating and recommending to the RTTF methods for financing renewable transmission projects in Arizona. This subcommittee is focused on providing input to the ACC and the regulated utilities subject to the ACC Order. In coordination with its companion RTTF subcommittee, the Arizona Renewable Resource and Transmission Identification Subcommittee (ARRTIS), the Finance Subcommittee was also directed to provide support to the utilities responsible for the April 20th Workshop as contemplated by the Order.

To date the Finance Subcommittee has held two meetings to discuss a range of factual matters relating directly to financing methods for renewable transmission projects in Arizona. Areas of investigation include: developing a working definition for a renewable transmission project; review of various project subscription methodologies; provisions for recovery of reasonable and prudent costs; and, various methods for providing utility shareholders with incentive rates-of-return on equity invested in renewable transmission projects. This includes characterizing the conditions under which such equity investments might become eligible for incentive treatment by the Commission.

No specific recommendations of the Finance Subcommittee have yet been formalized.

The work plan of the Finance Subcommittee contemplated a recess in April to allow the Workshop to be conducted, followed by an assessment of stakeholder input and suggestions accumulated from the workshop session. Thereafter the Subcommittee plans to reconvene and re-assess the work plan for the summer. The Finance Subcommittee Timeline (provided in the Appendices) indicates the Subcommittee will provide a Final Report to the RTTF in September. This Final Report will include a Draft Form of Order for consideration by the Commission. The Draft Form of Order will recommend regulatory protocols for financing renewable transmission projects in Arizona.

Subcommittee work products are included in the Appendices to this Interim Report. In addition, selected work products of both RTTF subcommittees are available at WestConnect's website via the following web address:

www.westconnect.com/planning_swat_rtbf.php

Subcommittee Work To-Date

Following establishment of the Finance Subcommittee, an initial solicitation of interest for participation in the subcommittee was issued on February 6, 2009. This announcement was distributed to RTTF participants and included a preliminary scope of investigation for the new subcommittee (see Appendices).

The first meeting was held on February 18, 2009. Matters discussed at this meeting included: the Southwest Area Transmission Planning Group and the Renewable Transmission Task Force; the Fifth Biennial Transmission Assessment and Arizona Corporation Commission Order No. 70635; a proposed scope and schedule for the Subcommittee; the relationship between the Subcommittee's work efforts and the proposed Workshop; potential definitions for a renewable transmission project in Arizona; and, the possible deliverables arising from the Subcommittee's efforts. Additional details on this first meeting can be found in the Appendices to this Interim Report.

A second meeting of the Finance Subcommittee was held on March 4, 2009. Items reviewed and discussed at this meeting were: cost recovery methodologies for capital investments in renewable transmission projects in Arizona; allocation of both a base and incentive return on equity for development of renewable transmission projects; transmission capacity subscription methods and practices; developing policies and recent orders at the Federal Energy Regulatory Commission; a working definition for renewable transmission projects in Arizona; relevant legislative developments; and, plans for issuing the Finance Subcommittee's Interim Report. Additional details of the second meeting can be found in the Appendices.

Following the utility Workshop scheduled for April 20, 2009, the Subcommittee will resume holding meetings.

Areas of Inquiry

The Arizona Corporation Commission opened a Docket for ongoing activities regarding renewable transmission projects in Arizona:

Docket Number: E-00000A-09-0066 "IN THE MATTER OF THE COMMISSION'S GENERIC DOCKET FOR INFORMATION GATHERING CONCERNING RENEWABLE TRANSMISSION ISSUES IDENTIFIED IN THE FIFTH BIENNIAL TRANSMISSION ASSESSMENT FINAL ORDERS REQUIRED IN DECISION NO. 70635"

The Finance Subcommittee is hopeful that the filing of this Interim Report in the Docket will foster additional discussion among and suggestions from stakeholders, including Commissioners, during the Workshop on April 20, 2009.

Of interest to the Subcommittee are comments from stakeholders and Commissioners that may be filed in the above Docket and represent responses to inquiries on policy that might be forthcoming from the Subcommittee or may be discussed in the Workshop.

Appendix Contents

**A. ACC Order No. 70635
December 11, 2008**

**B. Solicitation of Interest E-Mail & Subcommittee Scope and Schedule
February 6, 2009**

**C. Meeting No. 1
February 18, 2009**

- i. Agenda**
- ii. Roster**
- iii. Presentation Materials**
- iv. Subcommittee Timeline**
- v. Minutes**

**D. Meeting No. 2
March 4, 2009**

- i. Agenda**
- ii. Roster**
- iii. Presentation Materials**
- iv. Minutes**



Appendix A

ACC Order No. 70635

December 11, 2008

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **MIKE GLEASON**
 Chairman
3 **WILLIAM A. MUNDELL**
 Commissioner
4 **JEFF HATCH-MILLER**
 Commissioner
5 **KRISTIN K. MAYES**
 Commissioner
6 **GARY PIERCE**
 Commissioner

Arizona Corporation Commission

DOCKETED

DEC 11 2008

DOCKETED BY

nr

7
8 IN THE MATTER OF THE COMMISSION'S
9 FIFTH BIENNIAL TRANSMISSION
10 ASSESSMENT ("BTA"), PURSUANT TO
11 THE ADEQUACY OF EXISTING AND
12 PLANNED TRANSMISSION FACILITIES
13 TO MEET ARIZONA'S ENERGY NEEDS
14 IN A RELIABLE MANNER

DOCKET NO. E-00000D-07-0376

DECISION NO. 70635

ORDER

14 Open Meeting
15 December 3, 2008
16 Phoenix, Arizona

17 BY THE COMMISSION:

18 **FINDINGS OF FACT**

19 1. The Utilities Division Staff ("Staff") of the Arizona Corporation Commission
20 ("Commission") and its consultant, K.R. Saline and Associates, PLC ("KRSA"), have completed
21 the fifth biennial assessment of Arizona's existing and planned transmission system. The Fifth
22 Biennial Transmission Assessment, 2008-2017 ("BTA", or "assessment") was filed with the
23 Commission on October 22, 2008. The BTA report was also posted on the Commission website at:
24 <http://www.cc.state.az.us/divisions/utilities/electric/biennial.asp>.

25 2. The Fifth BTA report represents the professional opinion of Staff and its consultant,
26 KRSA. The BTA is not an evaluation of individual transmission providers' facilities or quality of
27 service. The BTA does not set Commission policy and does not recommend specific action for
28 any individual Arizona transmission provider. It assesses the adequacy of Arizona's transmission
 system to reliably meet existing and future energy needs of the state.

1 3. Staff held two workshops to gather stakeholders' input. The first workshop was
2 held on May 22-23, 2008 and the second workshop was held on September 18, 2008. The
3 comments and presentations submitted at the workshops, materials filed in the docket and
4 subsequent correspondence have been incorporated into the BTA.

5 4. The ten-year transmission plans and study reports filed by the participants with the
6 Commission are necessary to evaluate the adequacy and reliability of the transmission system.
7 Staff was assisted by KRSA in analyzing the technical reports and documents filed by various
8 organizations. The broad spectrum of information and technical reports assembled and reviewed
9 address transmission assessments from a national, western interconnection, regional, state and
10 local utility perspective.

11 5. The Fifth BTA report addresses the adequacy and reliability of Arizona's existing
12 and planned transmission system and offers conclusions and recommendations for the
13 Commission's consideration and action. Staff concludes in its report that the Arizona utility
14 industry has implemented steps to address the regional transmission planning issues, provide
15 transmission enhancements and additions, develop solutions for transmission import constraints in
16 various load pockets, and address local transmission system inadequacies.

17 These conclusions are based upon the following findings:

- 18 a. The existing and proposed Arizona transmission system meets the load serving
19 requirements of the state in a reliable manner. However, plans for the last five years of
20 the period from 2008- 2017 are less well defined than those in the earlier five years. As
21 such there are system performance issues that occasionally still need attention in the
22 last five years. There is still sufficient time to refine the planned improvements to
23 mitigate those concerns.
- 24 b. The 2008 level of preparedness of the three major utilities in Arizona appears to be
25 high and above the norm. None of the concerns in prior summer preparedness Open
26 Meetings over the past decade were present in 2008. The current electric utility system
27 in Arizona is adequate and, based upon the assumptions contained herein, should meet
28 the energy needs of the State of Arizona in 2008 with reliable service.
- c. The existing and planned transmission systems serving the Phoenix, Santa Cruz
County, Tucson, and Yuma areas are adequate and should reliably meet the local
energy needs of the respective areas through 2017. The adequacy level of the
Mohave County system is unclear due to controverted conclusions reached in multiple
publicly available study reports.

- 1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
- d. Santa Cruz County and Cochise County are served by radial transmission lines. Growing numbers of customers are, therefore, exposed to extended service interruptions following the loss of a single transmission line in these two counties. The ability of the two area service providers to restore service to customers within a reasonable period of time following a transmission line outage has been a long standing concern of the Commission. Transmission improvements that assure "continuity of service" for loss of a single transmission line is a public policy that should be adopted by the service providers to replace the "restoration of service" practice present in these two counties.
 - e. The Fourth BTA documented that N-1 contingency violations occurred for loss of the Apache to Butterfield 230 kV line, the Butterfield to San Rafael 230 kV line, or the Pantano to Kartchner 115 kV line, as reflected in the Southwest Transmission Cooperative ("SWTC") 2015 planning study. The Commission granted SWTC a time extension until January 2008 to resolve these three Cochise County N-1 contingency violations and to file expansion plans that resolve the issues as part of its 2008-2017 ten year plan. SWTC's ten year plan contains a proposal to resolve the issues. Staff concludes this proposed new line is not an adequate transmission solution for the N-1 contingencies because it perpetuates radial transmission service and "restoration of service" practices in Cochise County through at least 2026.
 - f. All Commission required studies have been filed. Arizona Public Service ("APS") and Tucson Electric Power ("TEP") filed Reliability Must Run ("RMR") studies. Salt River Project ("SRP") filed Southwest Arizona Transmission Study Group ("SWAT") studies that address N-1-1 contingencies and extreme contingency study requirements. SRP filed the Study of Pinal County and the SWAT Renewable Transmission Task Force ("Task Force") Report. APS filed a supplemental SWAT Task Force Report to address Staff's concerns. SWTC and TEP have also responded to the requirement that they file transmission plans and analyses addressing specific deficiencies described in the Fourth BTA.
 - g. In general the RMR studies show that each RMR area will have sufficient maximum load serving capability to reliably serve the respective area's load during the next ten year period. The RMR studies also indicate local RMR generation will not be dispatched out of merit order for significant hours or yield RMR costs sufficient to warrant advancing transmission improvements.
 - h. A Ten Year Snap Shot Study, and N-1-1 Study, and Extreme Contingency Study were performed by the Central Arizona Transmission System ("CATS") Extra High Voltage ("EHV") study group. TEP also modeled corridor outages and extreme contingencies in its RMR studies. The filed studies were thorough and well documented. The studies comport with the study effort outlined by Staff. These studies generally indicated that the Arizona utilities' ten year plans are sufficiently robust to provide adequate and reliable service to Arizona customers.
 - i. The Task Force Report was filed for this BTA in compliance with the fourth BTA Order. (Decision No.69389) A supplement to the original report was filed on August

6, 2008, in response to the BTA Workshop I request. The original report, the supplement, and the associated BTA Workshop I presentation document the stakeholder process that the Task Force utilized to assemble an industry perspective regarding the renewable energy development potential in Arizona. The industry's response comports with the Commission's Order in the Fourth BTA.

- j. TEP addressed the Fourth BTA's Finding of Fact 6(d) that the "Tucson area RMR requirements could be eliminated and the load area have open access to lower cost resources from the outside market if incremental upgrades are justified."
- k. SWTC filed a ten year plan with a proposed improvement that resolved contingency violations that were reflected in its 2015 planning study.
- l. Six major EHV transmission projects are proposed and have been addressed in this Fifth BTA. Individually and collectively these projects will improve the opportunity for interstate commerce in power transfers: TransWest Express Project, High Plains Express Project, SunZia Project, Diné Power Authority Project, Palo Verde to Devers No. 2 Project and the Palo Verde to North Gila No. 2 Project.
- m. Ongoing planned upgrades to existing EHV facilities will increase the transmission system capability to support increased interstate power transfers and provide reliable transfers within the state of Arizona.
- n. The Seams Issues Subcommittee ("SIS") report finds no specific seams issues that are created by California's Market Redesign and Technology Upgrade ("MRTU") or existing seams issues that are substantially worsened by MRTU implementation. Seams issues exist today, particularly between organized markets such as the California Independent System Operator ("CAISO") and bilateral physical markets that dominate the Western Interconnection. The SIS will continue to monitor, evaluate and propose solutions to all regional seams issues.
- o. This is the first BTA to address planned transmission facilities resulting from the studies performed by the Southeast Arizona Transmission Study ("SATS") Subcommittee. The transmission facilities studied are reflected in the SWTC and TEP ten year plans. The planned in-service dates for SWTC and TEP projects contemplated within the ten year planning cycle should be identified in order for proper modeling in future power flow base cases.
- p. Planning of local transmission improvements (115 kV through 230 kV) has traditionally been left to the respective transmission providers. As a result of sub regional collaboration such as that resulting in SATS, and the mandates of the Federal Energy Regulatory Commission ("FERC") Order 890, new local transmission planning processes are emerging that are open to stakeholders' participation.
- q. The Colorado River Transmission ("CRT") Subcommittee is engaged in its first formal study as a SWAT Subcommittee. The study is evaluating the Harcuvar Project interconnection with the Palo Verde to Devers No. 2 500 kV line. It would be helpful if CRT also addressed the local High Voltage ("HV") needs of Mohave County and

Yuma County in conjunction with the EHV transmission interfaces between Arizona, Nevada, and California.

RECOMMENDATIONS

Staff recommends that the Commission:

1. Continue to support use of:
 - a. "Guiding Principles for ACC Staff Determination of Electric System Adequacy and Reliability" to aid Staff in its determination of adequacy and reliability of power plant and transmission line projects,
 - b. North American Electric Reliability Corporation ("NERC") and Western Electricity Coordinating Council ("WECC") criteria and FERC policies regarding the transmission system reliability, and,
 - c. Collaborative study activities between transmission providers and merchant plant developers for the purpose of:
 - i. Ensuring consumer benefits of generation additions and cost effective transmission enhancements and interconnections, and
 - ii. Facilitating restructuring of the electric utility industry to reliably serve Arizona consumers at just and reasonable rates via competitive wholesale markets.
2. Accept the results of the following studies provided as a part of the Fifth BTA filings:
 - a. Compliance with single contingency criteria overlapped with the bulk power system facilities maintenance (N-1-1) criteria for the first year of the analysis period as required by WECC and NERC.
 - b. Extreme contingency outages studied for Arizona's major generation hubs and major transmission stations and associated risks and consequences documented if mitigating infrastructure improvements are not planned.
3. Continue to support the policy that generation interconnections should be granted a Certificate of Environmental Compatibility ("CEC") by the Commission only when they meet regional and national reliability criteria and the requirements of Commission decisions.
4. Enter the following orders:

- a. Arizona transmission providers shall explore formation of sub regional planning forums that assume the responsibility of addressing the local HV and EHV transmission import and RMR conditions in Mohave County and Yuma County. Such study forums shall be compatible with and supportive of FERC Order 890 local transmission provider planning obligations.
- b. APS shall file a Yuma County RMR study report with the next BTA that continues to incorporate the plans of all entities proposing to interconnect and do business in Yuma County.
- c. UNSE and Mohave Electric Cooperative ("MEC") shall collaborate with other stakeholders and UNSE shall file a Mohave County RMR study report with the next BTA that includes the impacts, influences, and system performance of all proposed local HV and EHV transmission improvements and potential generation interconnections occurring in the area. MEC shall provide all necessary MEC system data to UNSE to perform the RMR study.
- d. Commission regulated electric utilities shall file the SWAT Renewable Transmission Task Force transmission study report and the WestConnect Long Range Planning Study report within 30 days of their respective completion dates in order to supplement the renewable transmission assessments filed with this BTA.
- e. Commission regulated utilities shall continue to perform RMR studies in accordance with the methodology set forth in Appendix C to this Fifth BTA, and shall file such studies with ten year plans for even numbered years for inclusion in future BTA reports
- f. The SATS long range study is envisioned to be completed in 2008. This study is predominantly shaping the ten year plans filed with the Commission for SWTC and TEP. TEP shall file the SATS long range study on behalf of all SATS participants by January 2009.
- g. TEP and SWTC shall resolve all "to be determined" ("TBD") in-service dates for facilities envisioned to be constructed within the next ten years. The ten year plans filed by TEP and SWTC in January 2009 shall incorporate such resolved in-service dates. Plans that fall beyond the ten year horizon may be included in subsequent ten year plan filings but shall be identified as not occurring within the ten year horizon, if a TBD date designation is used.
- h. UNSE shall perform studies and shall file a report of those studies for the next BTA that establishes a long range system plan for Santa Cruz County that is founded on the principle of continuity of service following a transmission line outage. Elements of that system plan shall be incorporated in the UNSE ten year plan with a defined in-service date and shall be filed with the Commission in January 2009.

1 i. APS, SSVEC, and TEP shall perform collaborative studies and shall file a
2 report of those studies for the next BTA that establishes a long range system
3 plan for Cochise County that is founded on the principle of continuity of service
4 following a transmission line outage. SWTC shall participate in the study effort
5 as SSVEC's current sole transmission service provider. Relevant elements of
 that plan shall be incorporated in each transmission service provider's
 respective ten year plans with defined in-service dates and shall be filed with
 the Commission in January 2009.

6	OTHER

7 The Commission appreciates the hard work performed by the utilities, the Arizona
8 Renewable Transmission Task Force, and the SWAT Renewable Transmission Task Force in
9 identifying the location and amount of transmission needed to support the growth of renewable
10 resources in Arizona. Now that the aggregated state-wide needs have been identified, the
11 Commission believes that the next logical step is to develop procedures to assist in commencing
12 construction of the most urgently needed transmission lines.

13 The Commission realizes that this next step includes the classic "chicken or egg" dilemma,
14 in that renewable developers may not put forth projects unless transmission is available and
15 utilities may be reluctant to build transmission without commitments from renewable resource
16 developers to build generation facilities. We need a new process to solve this dilemma.

17 The Commission will require utilities and other stakeholders to hold a workshop to develop
18 ways in which new transmission projects can be identified, approved for construction, and
19 financed in a manner that will support the growth of renewables in Arizona. The workshop shall
20 be held no later than April 30, 2009.

Possible approaches to be considered could include a multi-phase approach that starts with an "open season" solicitation of confidential letters of intent to bid on renewable Requests for Proposals. These letters would identify the exact location of the proposed project, the technology proposed and the project output. Then, based on the results of the "open season," the utility or multiple utilities would identify sub-regions or areas where a critical mass of proposed projects is likely to be built. Based on this information, a utility or utilities could commence a formal Request for Proposals for a specific sub-region and select one or more renewable projects needing transmission in that sub-region.

Each utility would, as a result of this process, identify the top three potential renewable transmission projects in its service territory. Each utility, either alone or in cooperation with other interested utilities, would develop plans to identify future renewable transmission projects and develop plans and propose funding mechanisms to construct the top three renewable transmission projects. Those projects could include joint projects in other service territories.

CONCLUSIONS OF LAW

1. According to A.R.S. § 40-360.02.A, "Every person contemplating construction of any transmission line within the state during any ten year period shall file a ten year plan with the Commission on or before January 31 of each year."

2. According to A.R.S. §40-360.02.G, "The plans shall be reviewed biennially by the Commission and the Commission shall issue a written decision regarding the adequacy of the existing and planned transmission facilities in this state to meet the present and future energy needs of this state in a reliable manner."

3. The Commission, having reviewed the Fifth Biennial Transmission Assessment 2008-2017, concludes that the assessment complies with A.R.S. §40-360.02.

ORDER

THEREFORE, IT IS ORDERED that the Fifth Biennial Transmission Assessment 2008 - 2017 is hereby issued as the Commission's biennial assessment in accordance with A.R.S. §40-360.02.G.

IT IS FURTHER ORDERED that Commission-regulated electric utilities shall, by April 30, 2009, conduct a joint workshop or series of planning meetings to develop ways in which new transmission projects can be identified, approved for construction, and financed in a manner that will support the growth of renewables in Arizona.

IT IS FURTHER ORDERED that the Commission-regulated electric utilities shall take the results of the Arizona Renewable Transmission Task Force and the SWAT Renewable Transmission Task Force Plans developed for the Fifth Biennial Transmission Assessment and identify the top three potential renewable transmission projects in their respective service territories.

1 IT IS FURTHER ORDERED that each Commission-regulated utility, either alone or in
2 cooperation with other interested utilities, shall develop plans to identify future renewable
3 transmission projects and develop plans and propose funding mechanisms to construct the top
4 three renewable transmission projects. These plans and mechanisms shall be filed with the
5 Commission no later than October 31, 2009 and shall be discussed in the Sixth Biennial
6 Transmission Assessment.

7 IT IS FURTHER ORDERED that Staff recommendations contained herein are hereby
8 adopted by the Commission.

9 IT IS FURTHER ORDERED that this Order shall become effective immediately.

10
11 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

12
13 
CHAIRMAN

12
13 
COMMISSIONER

14
15
16 
COMMISSIONER

15
16 
COMMISSIONER

15
16 
COMMISSIONER

17 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
18 Director of the Arizona Corporation Commission, have
19 hereunto, set my hand and caused the official seal of this
20 Commission to be affixed at the Capitol, in the City of
Phoenix, this 11th day of December, 2008.

21
22 
23 BRIAN C. McNEIL
24 EXECUTIVE DIRECTOR

25 DISSENT: _____

26
27 DISSENT: _____

28 EGJ:PKB:lhv\CH

1 SERVICE LIST FOR: Fifth Biennial Transmission Assessment
2 DOCKET NO. E-00000D-07-0376

3 Mr. Stephen Ahern
4 Residential Utility Consumer Office
5 1110 West Washington, Ste 220
6 Phoenix, Arizona 85007

Mr. David Berry
LAW Fund
P.O. Box 1064
Scottsdale, Arizona 85252-1064

6 Mr. Paul Allen
7 Teco Power Services
8 Panda Gila River
9 P.O. Box 111
10 Tampa, Florida 33601-0111

Mr. Ed Beck
Supervisor
Tucson Electric Power Company
P.O. Box 711
Tucson, Arizona 85702

10 Mr. Ali Amirali
11 Calpine Western Region
12 6700 Koll Center Parkway, Suite 200
13 Pleasanton, California 94566

Mr. Steven C. Begay
General Manager
P.O. Box 3239
Window Rock, Arizona 86515

12 Ms. Patricia L. Arons
13 Manager
14 Southern California Edison
15 P.O. Box 800
16 Rosemead, California 91770

Mr. Patrick Black
Fennemore Craig
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913

16 Ms. Arlene C. Arviso
17 Program Manager
18 Dine Power Authority
19 P.O. Box 3239
20 Window Rock, Arizona 86515

Mr. R. Leon Bowler
Manager
Dixie Escalante Rural Electric Association
HC 76, Box 95
Beryl, Utah 84714

19 Mr. Ken Bagley
20 Genesse Consulting Group
21 1830 West Calle Escuda
22 Phoenix, Arizona 85085

Ms. Jana Brandt
Salt River Project
P.O. Box 52025
Phoenix, Arizona 85072-2025

22 Ms. Kelly J. Barr
23 Salt River Project
24 P.O. Box 52025
25 Phoenix, Arizona 85072-2025

Ms. Linda P. Brown
8316 Century Park Court
San Diego, California 92123-1582

25 Ms. Linda R. Beals
26 Arizona State Land Department
27 1616 West Adams
28 Phoenix, AZ 85007

Mr. Robert E. Broz
General Manager
Mohave Electric Cooperative, Inc.
P.O. Box 1045
Bullhead City, Arizona 86430

1 Mr. Thomas H. Campbell
Lewis and Roca LLP
2 40 North Central Avenue
Phoenix, Arizona 85004-4429
3
4 Mr. Ron Moulton
Western Area Power Administration
5 615 South 43rd Street
P.O. Box 6457
6 Phoenix, Arizona 85005-6457
7
8 Mr. Perry Cole
Trans Elect NTD
3420 North Hillcrest
9 Butte, Montana 59701
10
11 Mr. Brian Cole
Pinnacle West Energy Corporation
400 North Fifth Street
12 Phoenix, Arizona 85004
13
14 Mr. David Couture
Tucson Electric Power Company
220 West Sixth Street
15 P.O. Box 711
Tucson, Arizona 85702-0711
16
17 Mr. C. Webb Crockett
Fennemore Craig, P.C.
3003 North Central Avenue, Suite 2600
18 Phoenix, Arizona 85012-2913
19
20 Mr. Cary B. Deise
Arizona Public Service Company
502 South Second Avenue
21 Phoenix, Arizona 85003
22
23 Mr. Randy Dietrich
Salt River Project
P.O. Box 52025
24 Phoenix, Arizona 85072-2025
25
26 Mr. W. R. Dusenbury
Reliant Energy - Desert Basin
P.O. Box 11185
27 Casa Grande, Arizona 85230
28

Ms. Rebecca Eickley
City of Scottsdale
7447 East Indian School Road
Scottsdale, Arizona 85251

Mr. Jeff Palermo
Project Manager
KEMA, Inc.
4400 Fair Lakes Court
Fairfax, Virginia 22033

Mr. Mark Etherton
PDS Consulting, PLC
5420 South Lakeshore Dr., Suite 104
Tempe, Arizona 85283

Mr. Bruce Evans
Maricopa County Facilities Management
401 West Jefferson Street
Phoenix, Arizona 85003

Mr. Bruce Evans
Southwest Transmission Cooperative
P.O. Box 2195
Benson, Arizona 85602

Ms. Lori Faeth
Natural Res. & Envrn Policy Advisor
Governor's Office
1700 West Washington
Phoenix, Arizona 85007

Mr. Roger K. Ferland
Streich Lang, P.A.
Renaissance One
Two North Central Avenue
Phoenix, Arizona 85004-2391

Mr. Michael Fletcher
Columbus Electric Cooperative, Inc.
P.O. Box 631
Deming, New Mexico 88031

Mr. Doug Fant
Power Up Corporation
80 East Columbus Avenue
Phoenix, Arizona 85003

1 Mr. Leonard S. Gold
2 4645 S. Lakeshore Drive, Suite 16
3 Tempe, Arizona 85282
4 Mr. Gregg A. Houtz
5 Deputy Counsel
6 Arizona Department of Water Resources
7 3550 North Central Avenue
8 Phoenix, Arizona 85012
9 Mr. Creden W. Huber
10 General Manager
11 Sulphur Springs Valley Electric Coop., Inc.
12 P.O. Box 820
13 Willcox, Arizona 85644
14 Mr. Gary L. Ijams
15 Power Program Manager
16 Central Arizona Project
17 P.O. Box 43020
18 Phoenix, Arizona 85080
19 Mr. Don Kimball
20 General Manager
21 Arizona Electric Power Cooperative, Inc.
22 P.O. Box 670
23 Benson, Arizona 85602-0670
24 Ms. Barbara Klemstine
25 Regulation Manager
26 Pinnacle West Capital Corporation
27 P.O. Box 53999, Station 9909
28 Phoenix, Arizona 85072
Mr. Robert Kondziolka
Manager
Salt River Project
P.O. Box 52025, MS POB100
Phoenix, Arizona 85072-2025
Mr. Fred A. Lackey
Manager
Continental Divide Electric Coop., Inc.
P.O. Box 1087
Grants, New Mexico 87020

Mr. Steve Lines
General Manager
Graham County Electric Cooperative, Inc.
Post Office Drawer B
Pima, Arizona 85543

Mr. Bob Linnsen
Arizona Power Authority
1810 West Adams
Phoenix, Arizona 85007

Mr. Sam Lipman
Desert Energy
13257 North 94th Place
Scottsdale, Arizona 85260

Ms. Nancy Loder
New West Energy Corporation
P.O. Box 61868
Phoenix, Arizona 85082-1868

Mr. Robert S. Lynch
Attorney
340 East Palm Lane
Phoenix, Arizona 85004

Ms. Angel Mayes
Bureau of Land Management
Sonoran Desert National Monument
21605 North 7th Street
Phoenix AZ 85027

Mr. Ken McBiles
Manager
Ajo Improvement Company
Post Office Drawer 9
Ajo, Arizona 85321

Mr. Jeff McGuire
P.O. Box 1046
Sun City, Arizona 85372

Mr. Mark McWhirter
Director, Energy Office
Department of Commerce
3800 North Central, Suite 1200
Phoenix, Arizona 85012

1 Mr. Steve R. Mendoza, P.E.
2 Executive VP and Chief Engineer
3 Western Wind Energy Corporation
4 6619 North Scottsdale Road
5 Scottsdale, Arizona 85250
6
7 Mr. Jeff Miller
8 Grid Planning Department
9 California Independent System Operator
10 151 Blue Ravine Road
11 Folsom, California 95630
12
13 Mr. Jon Merideth
14 Sierra Southwest Cooperative Services
15 3900 East Broadway
16 Tucson, Arizona 85711
17
18 Mr. Jay I. Moyes
19 Moyes Storey
20 3003 North Central, Suite 1250
21 Phoenix, Arizona 85012
22
23 Mr. Douglas C. Nelson
24 7000 North 16th Street
25 Suite 120, PMB 307
26 Phoenix, Arizona 85020
27
28 Mr. Frederick Ochsenhirt
Dickstein Shapiro Morin & Oshinsky
2101 L Street NW
Washington D.C. 20037
Mr. Mike Palmer
604 Hovland
Bisbee, Arizona 85603
Mr. Greg Patterson
Competitive Power Alliance
916 West Adams, Suite 3
Phoenix, Arizona 85007
Mr. Greg Ramon
TECO Energy
P.O. Box 111
Tampa, Florida 33603

Mr. Paul Rasmussen
Arizona Dept. of Environmental Quality
1110 West Washington
Phoenix, Arizona 85007-2952

Mr. Charles Reinhold
WestConnect
P.O. Box 88
Council, Idaho 83612

Mr. Wayne Retzlaff
General Manager
Navopache Electric Cooperative, Inc.
P.O. Box 308
Lakeside, Arizona 85929

Mr. Anthony H. Rice, P.E.
MWH Energy & Infrastructure, Inc.
4820 South Mill Avenue, Ste 202
Tempe, Arizona 85282

Ms. Vicki Sandler
Arizona Independent Scheduling Admin.
P.O. Box 6277
Phoenix, Arizona 85009

Mr. W. Patrick Schiffer, Chief Counsel
Arizona Department of Water Resources
500 North Third Street
Phoenix, Arizona 85004

Mr. George M. Seitts
Energy Office Director
1700 West Washington, Suite 220
Phoenix, Arizona 85007

Mr. Jack Shilling
General Manager
Duncan Valley Electric Cooperative, Inc.
P.O. Box 440
Duncan, Arizona 85534

Mr. H. Max Shilstone
Duke Energy North America
Arlington Valley Energy
5200 Westheimer Court
Houston, Texas 77056-5310

1 Mr. Chuck Skidmore
2 City of Scottsdale
3 P.O. Box 4189
4 Scottsdale, Arizona 85261

5 Mr. Dick Silverman
6 Salt River Project
7 P.O. Box 52025
8 Phoenix, Arizona 85072-2025

9 Mr. John Simpson
10 P.O. Box 286
11 Houston, Texas 77001

12 Mr. John Lucas
13 Arizona Public Service Company
14 502 South Second Street
15 Phoenix, Arizona 85003

16 Mr. Michael Sparks
17 Reliant Energy
18 P.O. Box 286
19 Houston, Texas 77001

20 Mr. Rob Speers
21 MWH Energy & Infrastructure, Inc.
22 4820 South Mill Ave
23 Tempe, AZ 85282

24 Mr. Bill Sullivan
25 Martinez and Curtis
26 2712 North 7th Street
27 Phoenix AZ 85006-1090

28 Mr. Kenneth C. Sundlof
Jennings, Strouss & Salmon, PLC
Collier Center, 11th Floor
201 E Washington St
Phoenix AZ 85004-2385

Mr. Dennis True
UniSource Energy Services
4255 Stockton Hill Road, Suite 3
P.O. Box 3099
Kingman AZ 96401

Ms. Patricia van Midde
22006 North 55th Street
Phoenix, Arizona 85054

Ms. Jennie Vega
Arizona Public Service Company
P.O. Box 53999
Phoenix, Arizona 85072-3999

Ms. Laurie A. Woodall
K.R. Saline and Associates, PLC
160 North Pasadena, Suite 101
Mesa, Arizona 85201

Mr. Robert Walther
Industrial Power Technologies
2227 Capricorn Way, Suite 101
Santa Rosa, California 95407

Honorable Mike Whalen
Mesa City Council
P.O. Box 1466
Mesa, Arizona 85211

Mr. Tom Wray
Southwestern Power Group
3610 N. 44th St, Suite 250
Phoenix, Arizona 85018

Mr. Pete Wright
Gila Bend Power Partners
5949 Sherry Lane, Suite 1880
Dallas, TX 75225

Mr. Mark Zora
PPL Energy Plus
45 Basin Creek Road
Butte MT 59701

Mr. John Foreman
Office of the Attorney General
1275 West Washington
Phoenix, Arizona 85007

Patricia A. Noland
Clerk of the Superior Court
4851 West Gates Pass Road
Tucson, Arizona 85745

- 1 David L. Eberhart, PE
- 2 Thunderbird Consulting Group
- 3 6801 West Astor
- 4 Peoria, Arizona 85361
- 5
- 6 Jim Arwood
- 7 Arizona Dept of Environmental Quality
- 8 State Capitol Executive Tower
- 9 1700 West Washington St
- 10 Phoenix, Arizona 85007
- 11
- 12 Mike Biesemeyer
- 13 Line Siting Committee
- 14 3350 N. Arizona Ave, Suite 10
- 15 Chandler, Arizona 85225
- 16
- 17 Mike Palmer
- 18 Line Siting Committee
- 19 604 Hovland
- 20 Bisbee, Arizona 85603
- 21
- 22 Barry Wong
- 23 Line Siting Committee
- 24 5025 N. Central Ave, #621
- 25 Phoenix, Arizona 85012
- 26
- 27 Mr. Ernest G. Johnson
- 28 Director, Utilities Division
- Arizona Corporation Commission
- 1200 West Washington Street
- Phoenix, Arizona 85007
- Ms. Janice M. Alward
- Chief Counsel, Legal Division
- Arizona Corporation Commission
- 1200 West Washington Street
- Phoenix, Arizona 85007



Appendix B

Solicitation of Interest E-Mail & Subcommittee Scope and Schedule

February 6, 2009

Subject: Renewable Transmission Task Force: Project Finance Subcommittee

Attached is a scope and schedule document pertaining to formation of this new subcommittee. Please take a few minutes to review it.

This subcommittee will, in general, investigate methodologies for financing renewable transmission projects in Arizona. To meet both the expectations and schedule found in Arizona Corporation Commission Order No. 70635, associated with the Fifth Biennial Transmission Assessment, the subcommittee must complete its study work and provide findings and recommendations for further action no later than April 1, 2009. Doing so will better accommodate the stakeholder workshop contemplated by the Order, that needs to be completed by April 30, 2009.

If you would like to participate on the RTTF Project Finance Subcommittee, please provide your contact information to Cindy Bailey at cbailey@southwesternpower.com, no later than February 12, 2009.

1. Name of Participant
2. Participant's Organization (if any)
3. Participant's e-mail address
4. Telephone Contact Number

Your participation is both encouraged and welcomed.

The subcommittee's initial meeting is scheduled for Thursday, February 18, 2009. An agenda and meeting time/location will be provided a later date.

Thanks in advance for your attention to this important matter.

Tom Wray
Chairman, RTTF Project Finance Subcommittee

Tom Wray
Project Manager
SunZia Southwest Transmission Project
South Western Power Group
3610 North 44th Street
Suite 250
Phoenix, AZ 85018

(602) 808-2004 W
(602) 808-2099 F
(505) 695-0323 M

twray@southwesternpower.com

**Southwest Area Transmission Group
Renewable Transmission Task Force (RTTF)
Project Finance Subcommittee**

1.0 Overview

The Project Finance Subcommittee has been established to provide recommendations to the full RTTF of a methodology of financing identified renewable transmission projects in Arizona, including rate recovery mechanisms for jurisdictional utilities that might be proposed to the Arizona Corporation Commission. The subcommittee's efforts are in support of an eventual response to the Fifth Biennial Transmission Assessment, as set forth in Docket No. E-00000D-07-0376 and addressed in Commission Order No.70635, dated December 11, 2008. Of particular relevance to the subcommittee's scope of investigation are statements found in the Order at page 7, lines 13 through 20 and page 8, lines 1 through 5, excerpts of which are reproduced below:

*"...the classic '**chicken or egg**' dilemma ..."*

*"...**We need a new process** to solve this dilemma."*

*"...require utilities and other stakeholders to ... **develop ways in which new transmission projects can be ...financed...**"*

*"...would develop plans to identify future renewable transmission projects and develop plans and **propose funding mechanisms** to construct the top three renewable transmission projects." [Emphasis added]*

The Order also provides the following deadlines for certain deliverables from jurisdictional utilities:

April 30, 2009: *"The workshop(s) shall be held no later than April 30, 2009."*

October 31, 2009: *"These plans and mechanisms shall be filed with the Commission no later than October 31, 2009 ..."*

2.0 Subcommittee Schedule

2.1 The Order contemplates those utilities subject to the Commission's jurisdiction must plan and conduct workshops prior to the end of April. Thus, this subcommittee should plan its work to conclude our investigation and recommendations by this deadline to allow the full RTTF to conduct a comment period with sufficient time to be incorporated into the April workshop. There is also a need to coordinate with relevant work being undertaken by the RTTF Arizona Subcommittee (ARRTIS) and its investigation of Arizona's renewable resource zones and the transmission facilities needed to connect these zones to the existing electrical grid.

3.0 Subcommittee Scope of Investigation

3.1 Establish a working definition for a "Renewable Transmission Project (RTP)";

3.2 Review methods of securing project participation in RTPs, including open seasons, requests for proposal, bilateral contracts, auctions, transmission capacity options, etc;

3.3 Develop a standard procedure for utilities to accumulate costs attributable to preliminary engineering, technical studies, survey work and investigation, permitting and rights-of-way acquisition in support of RTPs, which become eligible for rate-based cost recovery by order of the Commission;

3.4 Review procedures whereby incentives are available to utilities participating in RTPs, including the ability to earn a higher rate of return on equity invested by the company's shareholders; and,

3.5 Investigate the applicability of alternative capital structures for both construction and operating period financing.

4.0 Subcommittee Deliverables

4.1 Provide agendas and minutes of all meetings.

4.1 Prepare and issue a report of findings and recommendations to the full RTTF no later than April 1, 2009.

{As of: 2-6-09.}



Appendix C

Meeting No. 1
February 18, 2009

i. Agenda

**Southwest Area Transmission (SWAT) Study Group
Renewable Transmission Task Force (RTTF)**

**Project Finance Subcommittee
MEETING NO. 1 AGENDA**

**Wednesday, February 18, 2009
2:00 PM – 4:00 PM**

**Arizona Public Service Company Central Headquarters
400 N. 5th Street, Phoenix AZ
Conference Room 2-South [Second Floor]**

- 1) Welcome**
- 2) Introductions and Sign-In**
- 3) Review Agenda**
- 4) SWAT-RTTF Overview**
- 5) Review of ACC BTA Order No. 70635**
- 6) Review of Project Finance Subcommittee:**
 - a) Schedule – Conclude initial tasks prior to RTP Workshop deadline:
April 30, 2009**
 - b) Scope – Produce recommendations on RTP financing and provide
support to the RTP Workshop**
- 7) Description of Deliverables**
 - a) Interim Report to full RTTF by April 1, 2009**
 - b) Provide Workshop support during April 2009**
 - c) Draft Form of Order to full RTTF by August 1, 2009**
- 8) Next Meeting**



Appendix C

Meeting No. 1
February 18, 2009

ii. Roster

Sign-in Sheet

Don



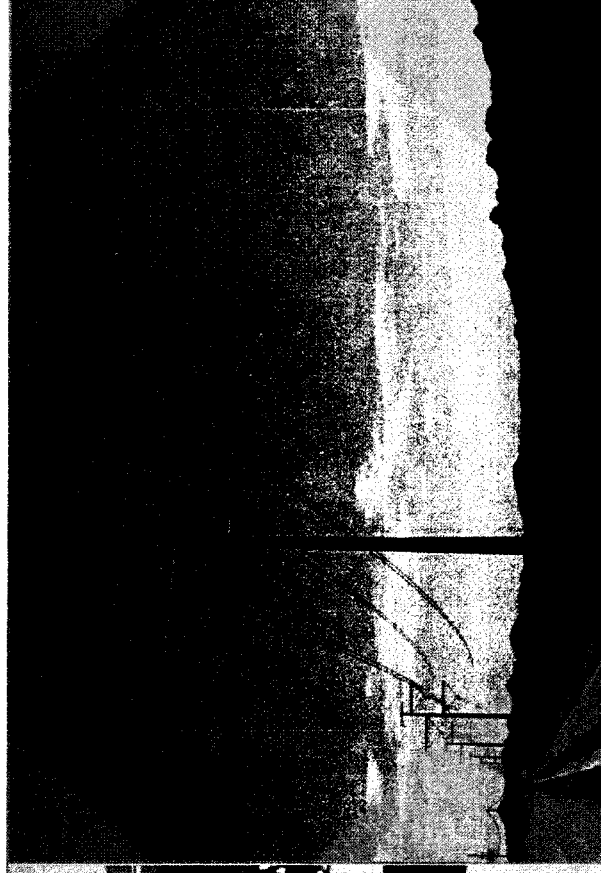
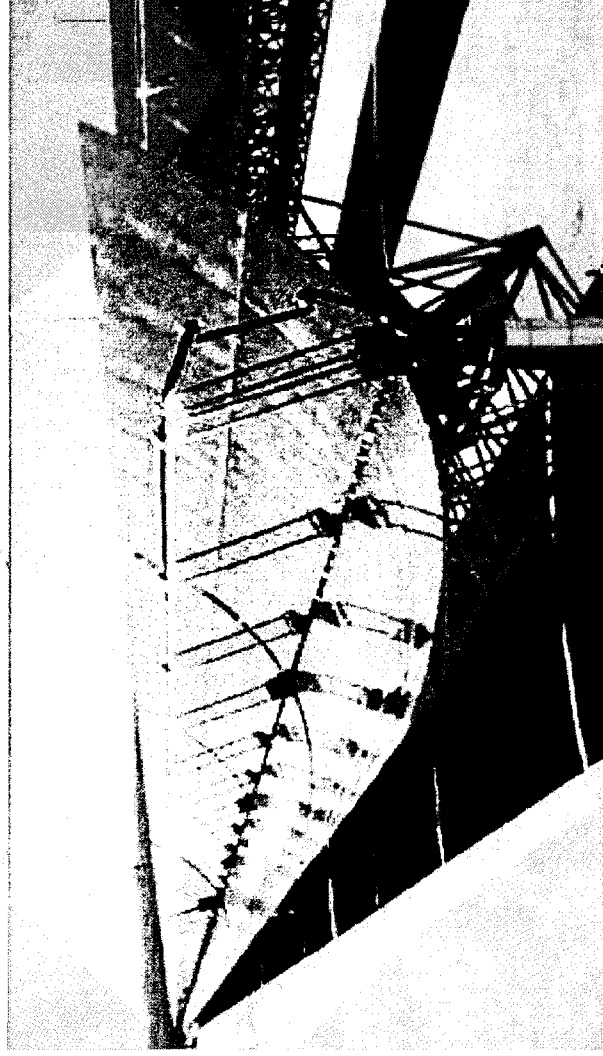
Appendix C

Meeting No. 1
February 18, 2009

iii. Presentation Materials



RTTF PROJECT FINANCE SUBCOMMITTEE



Meeting No. 1
February 18, 2009
Chairman: Tom Wray

Welcome

Please state your **name and organization**

Sign-In Sheet

- Please initial next to your name. If you are not listed, please fill in your contact information

Agenda

- SWAT~RTTF Overview
- Review of ACC BTA Order No. 70635
- Review of Project Finance Subcommittee
 - Schedule (Timeline)
 - Scope
- Deliverables
- Next Meeting

SWAT~RTTF Overview

■ **Southwest Area Transmission (SWAT) Study Group:** Comprised of utilities and stakeholders engaged in collaborative transmission planning for the AZ, NM, NV and southern CA high voltage grid.

■ **Renewable Transmission Task Force (RTTF):** Committee of SWAT tasked to:

- 1) Identify renewable resource potential in the SWAT footprint.
- 2) Conduct technical studies of transmission systems to interconnect potential renewable energy generation to load centers and the grid.

Review of ACC BTA Order No. 70635

Associated with Renewable Transmission Projects (RTPs)

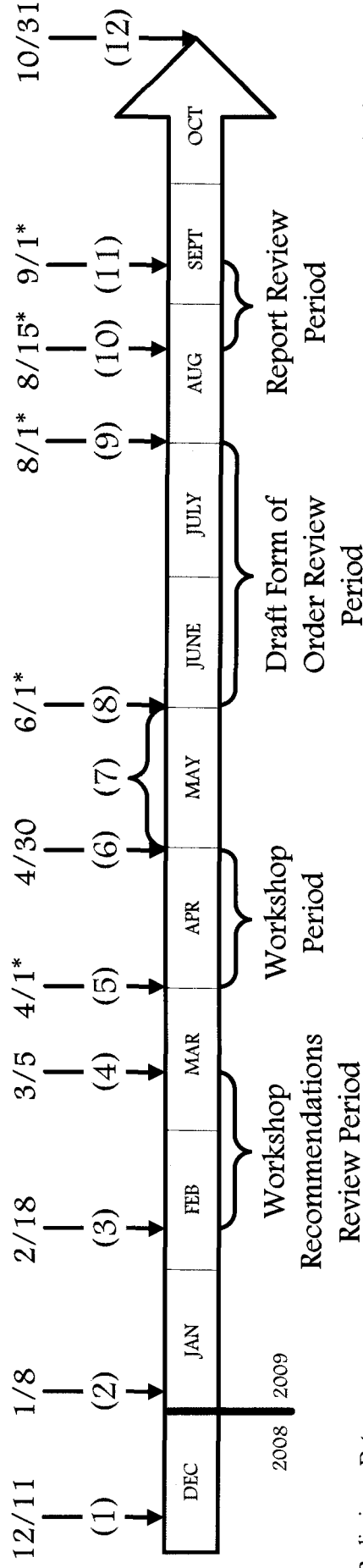
1. Regulated utilities must update RTTF and WestConnect reports to supplement the BTA's RTP assessment (Page 6; Part 4.d.)
1. “...by April 30, 2009, conduct a joint workshop or series of planning meetings...” to “identify” and “finance” RTPs (Page 8; Lines 20~23)
1. Regulated utilities “...shall take the results of...” the “...SWAT Renewable Transmission Task Force...” and “...identify the top three...” RTPs within “...their respective service territories” (Page 8; Lines 24~28)
1. Regulated utilities shall file “plans and funding mechanisms” with the Commission “no later than October 31, 2009” (Page 9; Lines 1~5)



ACC Order No. 70635:

Project Finance Subcommittee Timeline

- (1) 12/11/08 ACC issues Order No. 70635
- (2) 1/8/09 RTTF creates subcommittees: a) AARTIS b) Project Finance
- (3) 2/18/09 Meeting No. 1: Define Scope; Schedule; RTP Definition; Deliverables
- (4) 3/5/09 Meeting No. 2: Finalize Workshop Recommendations
- (5) 4/1/09* Submit Interim Report to RTTF
- (6) 4/30/09 End of Workshop Period per Order No. 70635
- (7) 5/09 Based on Workshop(s), RTTF reviews subcommittee scope of investigation
- (8) 6/1/09* Meeting No. 3: Discuss and develop Draft Form of Order
- (9) 8/1/09 * Meeting No. 4: Conclude Review of Draft Form of Order
- (10) 8/15/09* Issue Draft Report to Subcommittee
- (11) 9/1/09* Issue Final Report to RTTF with recommended Form of Order
- (12) 10/31/09 Utilities respond to order No. 70635: "...funding mechanisms... shall be filed with the Commission no later than October 31, 2009..."



*Preliminary Dates

Revised: 2/18/2009

Scope

Define: Renewable Transmission Project (RTP)

- 1.0 RTPs are not transmission projects whose primary function results in the following:
 - 1.1 Satisfies growth of jurisdictional peak load
 - 1.2 Mitigates service reliability problems
 - 1.3 Provides an operational convenience on the grid
 - 1.4 Constructed for purposes other than to access renewables to comply with a RES or for providing market export capability for renewables
 - 1.5 Other non-qualifying characteristics?

Scope

Continued...

Define: Renewable Transmission Project (RTP)

- 2.0 A transmission project is a RTP if:
 - 2.1 The facility transmits “at least thirty percent of the electric energy” “...from renewable energy sources”.
[NMSA 1978 62~16A~2.D; RETA in New Mexico]
 - 2.2 Other regional or national RTP definition examples?

Scope

Continued...

Define: Renewable Transmission Project (RTP)

3.0 Proposed working definitions for RTPs in Arizona

3.1 Project must demonstrate to the Commission that at least 50% of the WECC-rated line capacity is used or will be used by bona fide renewable power generators;

OR

3.2 Project would otherwise not have been proposed were it not for primarily providing transmission access to and delivery of bona fide renewable power generation

Scope

Continued...

3.3 Notes to 3.0 (Proposed working definition for RTPs in AZ)

- 3.3.1 Rated capacity is measured in MW (not MWH)
- 3.3.2 Rated transmission capacity is that rating duly-established by WECC and posted as ATC
- 3.3.3 Capacity utilized is based on transmission service contracts filed with FERC
- 3.3.4 Prospective estimates of “renewable transmission capacity” to be utilized can be based on capacity options, interconnection queues or open season auctions
- 3.3.5 Compliance with the RTP definition can also be based on negotiated bilateral contracts for firm, conditional firm and interruptible capacity (point-to-point and network), as approved by FERC



Scope

Continued...

3.4 Purpose and Need; Siting

3.4.1 The Commission will conduct a NOPR and promulgate rules regulating applications for obtaining RTP status

3.4.2 RTP status is conferred by Order of the Commission

3.4.3 The proof of purpose and need for an RTP as established by the Order, is incontrovertible and irrecusable and is deemed to be in the public interest by operation of the Order itself

Scope

Continued...

- 4.0 Discussion of solicitations for and subscriptions of RTP capacity
 - 4.1 Open Seasons
 - 4.1.1 Deposits
 - 4.1.2 Credit Screens
 - 4.1.3 Culling and Re-bids
 - 4.2 RFPs
 - 4.3 Auctions
 - 4.4 Capacity Options
 - 4.5 Bilateral Contracts
 - 4.6 Emerging Trends at FERC

Scope

Continued...

5.0 Cost Recovery and ROE Incentives

5.1 Utilities should receive pro-forma recovery of prudently-incurred costs of investigating RTP feasibility, including costs for:

5.1.1 Preliminary engineering

5.1.2 Technical studies

5.1.3 Survey and mapping

5.1.4 Preliminary ROW acquisition (ie: options)

5.1.5 Project formation and development activities

5.1.6 Project abandonment

Scope

Continued...

5.2 The Commission should consider awarding utilities incentive ROEs for equity invested in successful RTPs, including those necessary to satisfy that utility's REST obligations, and for developing RTP capacity for exporting the state's renewable resources

5.3 The Commission should consider alternative capital structures associated with RTPs that might be proposed by utilities

Deliverables

- Interim Report to RTF by April 1, 2009
- Provide workshop support during April 2009
- Subcommittee develops Draft Form of Order: June through August 2009
- Subcommittee issues Final Report and recommended Draft Form of Order by September 1, 2009

Next Project Finance Subcommittee Meeting

- Meeting No. 2:
 - Thursday, March 5, 2009
 - 12:30 PM to 3:00 PM
 - APS Central Headquarters

.....

Subcommittee Contact Information

Cindy Bailey

cbailey@southwesternpower.com

Tom Wray

twray@southwesternpower.com

SouthWestern Power

Main Phone: (602) 808-2004



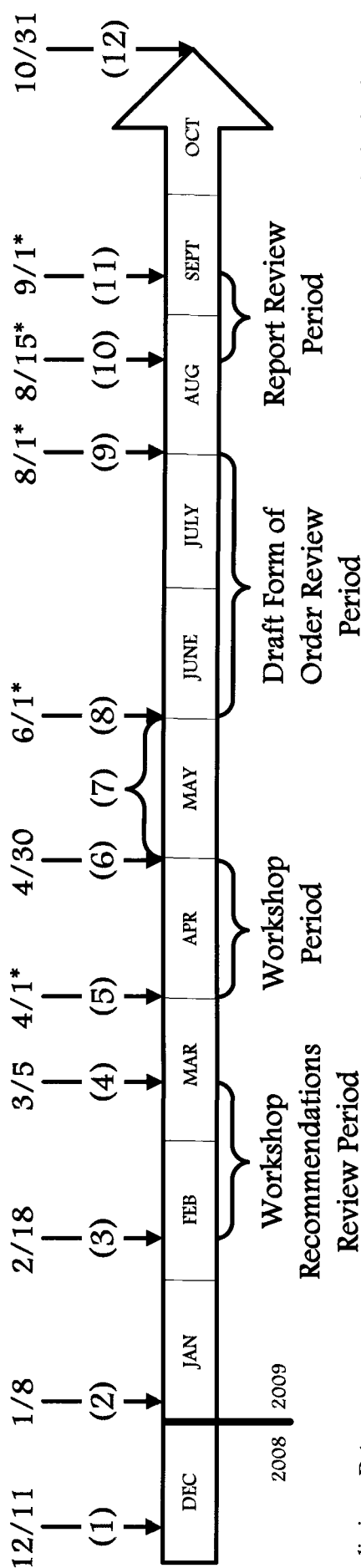
Appendix C

Meeting No. 1
February 18, 2009

iv. Subcommittee Timeline

ACC Order No. 70635: RTTF Project Finance Subcommittee Timeline

- (1) 12/11/08 ACC issues Order No. 70635
- (2) 1/8/09 RTTF creates subcommittees: a) AARTIS b) Project Finance
- (3) 2/18/09 Meeting No. 1: Define Scope; Schedule; RTP Definition; Deliverables
- (4) 3/5/09 Meeting No. 2: Finalize Workshop Recommendations
- (5) 4/1/09* Submit Interim Report to RTTF
- (6) 4/30/09 End of Workshop Period per Order No. 70635
- (7) 5/09 Based on Workshop(s), RTTF reviews subcommittee scope of investigation
- (8) 6/1/09* Meeting No. 3: Discuss and develop Draft Form of Order
- (9) 8/1/09* Meeting No. 4: Conclude Review of Draft Form of Order
- (10) 8/15/09* Issue Draft Report to Subcommittee
- (11) 9/1/09* Issue Final Report to RTTF with recommended Form of Order
- (12) 10/31/09 Utilities respond to order No. 70635: "...funding mechanisms... shall be filed with the Commission no later than October 31, 2009..."



*Preliminary Dates

Revised: 2/18/2009



Appendix C

Meeting No. 1
February 18, 2009

v. Minutes



SWAT RTTF Project Finance Subcommittee
Meeting No. 1
February 18, 2009

REVISED Minutes
(as of 3/5/2009)

Revisions are depicted as the following:

Deleted items are shown as strike-through
Added items are shown in ***bold italics***

Attendees:

Albert, Brad	Cobb, Antoine	Smoldon, Russell
Bagley, Ken	Cole, Brian	Stahlhut, Jonathan
Bailey, Cindy	Estrada, Giancarlo	Tobin, Richard
Bantu, Ravi	Getts, David	Woodall, Laurie
Bernosky, Greg	Kondziolka, Robert	Wray, Tom (chairman)
Brandt, Jana	Ormond, Amanda	
Charter, James	Rasmussen, Brian	

Meeting Notes:

1) Introductions

All meeting attendees at APS Central Headquarters and on the conference line identified themselves and the organizations they represent.

2) Southwest Area Transmission ("SWAT") Study Group and Renewable Transmission Task Force ("RTTF") Overview

The chairman briefly described the purpose of SWAT and RTTF which are the parent groups of the Project Finance Subcommittee ("subcommittee").

3) Review of Arizona Corporation Commission ("Commission") Biennial Transmission Assessment ("BTA") Order No. 70635

The subcommittee reviewed the Commission's BTA Order No. 70635 since this document directed:

"...each Commission-regulated utility, either alone or in cooperation with other interested utilities, shall develop plans to identify future renewable transmission projects and develop plans and propose funding mechanisms to construct the top three renewable transmission projects."
(Page 9; Lines 1-4).

At the RTTF meeting conducted on 1/8/2009, the subcommittee was created to investigate possible funding mechanisms for the three proposed renewable transmission projects expected to be identified by the utilities and filed with the Commission, no later than 10/31/2009.

4) Review of Project Finance Subcommittee:

a) Schedule

The subcommittee discussed the *Project Finance Subcommittee Timeline* (see Attachment A) that outlines Order-mandated deadlines as well as the target dates for subcommittee meetings and deliverables. The subcommittee will develop project financing recommendations and an interim report that will be provided to the RTTF by 4/1/2009. The project financing recommendations will be first drafted by the chairman and distributed among the subcommittee for their review and comment at the next subcommittee meeting, scheduled for 3/4/2009. The project financing recommendations and interim report will be available to the utilities conducting the Workshop during April:

"...Commission-regulated electric utilities shall, by April 30, 2009, conduct a joint workshop or series of planning meetings to develop ways in which new transmission projects can be identified, approved for construction, and financed in a manner that will support the growth of renewables in Arizona" (Page 8; Lines 20-23).

The RTTF will have the month of May to review and consider the results of the Workshop and make changes, as needed, to the subcommittee's future scope of investigation. The chairman emphasized the need for, as part of the subcommittee's work product, a draft "form of Order" describing how the Commission would treat both costs of development and earnings from renewable transmission projects (RTPs). Due to its importance, the subcommittee will set aside a two month period for review and refinement of such a draft form of Order during June and July. Following this review period, a Final Report and a recommended final form of Order will be issued to the RTTF for their review by 9/1/2009.

The subcommittee discussed how the RTTF, Arizona Renewable Resource Transmission Subcommittee (AARTIS), and the Project Finance Subcommittee will coordinate their activities.

b) Scope

The subcommittee reviewed possible RTP characteristics. This led to discussion of examples of transmission projects that amount to an ordinary course of business, as contrasted to projects whose primary purpose is for delivery of renewable energy generation projects. Such "ordinary" transmission projects include those whose primary function is to satisfy growth of jurisdictional peak load, mitigate service reliability problems, or provide an operational convenience on the grid. Projects may qualify for RTP status if they create access to renewable energy resources to accommodate the state's Renewable Energy Standards (RES) or provide market export capacity for renewable energy resources.

The subcommittee reviewed New Mexico's Renewable Energy Transmission Authority's RTP definition as a facility that transmits "...at least thirty percent of the electric energy..." "...from renewable energy sources" (NMSA 1978 62-16A-2.D; RETA New Mexico). The chairman proposed two alternative working definitions for RTPs in Arizona as being projects that can demonstrate to the Commission that (1) at least 50% of the WECC-rated line capacity (in MWs) is used or will be used by bona fide renewable energy generators, or (2) the project would otherwise not have been proposed were it not for primarily providing transmission access to and delivery of bona fide renewable energy generation. The first proposed RTP definition prompted discussion among the subcommittee of how a project would maintain its RTP designation once placed in operation. The RTP would need a method to evidence compliance by measuring the percentage of capacity on the line that is designated for use by renewable energy generation, especially in the event future pro-forma Federal Energy Regulatory Commission ("FERC") Order 888 interconnections come from non-renewable generation sources seeking such interconnection. Evidence might be provided by RTP owners in the form of transmission service agreements filed with the FERC. ~~There is clearly a need to create measurable protocols that establish initial and ongoing RTP status.~~ The form of Order should describe such protocols for the Commission's consideration. The subcommittee preferred the second definition for an RTP, as it was deemed more workable and easier to administer. ***Brian Cole from APS pointed out the subcommittee raised concerns about each of the preliminary definitions that were laid out in the meeting's presentation. The meeting did not conclude with consensus of a final RTP definition to use as the group considers financing mechanisms for RTPs. RTP definitions will be further discussed at subsequent meetings.***

The Commission might consider conducting a Notice of Proposed Rulemaking to establish the rules and procedures governing RTPs. Once RTP status is designated by an order of the Commission, the *purpose and need* of an RTP ought to be deemed as being established (i.e.: incontrovertible and irrecusable) and therefore, by operation of the order

itself, in the public interest. There was general consensus that further discussion of the working definition of an RTP is warranted.

The subcommittee also discussed solicitation and subscription methods of RTP capacity through open season processes, requests for proposals, auctions, capacity options, bi-lateral contracts, and interconnection queues. There are also emerging trends at FERC the chairman will provide to the subcommittee for future review.

Financing mechanisms that could encourage utilities to engage in RTP development might come in the form of cost recovery methodologies and incentives that limit the investment risks undertaken by the utility. Utilities might receive pro-forma recovery of prudently-incurred costs invested to determine project feasibility. Such costs could include preliminary engineering and environmental costs, technical studies, surveying and mapping, preliminary right-of-way acquisition, project formation and other development activities. Project abandonment costs should also be addressed.

In addition, the Commission might consider awarding utilities an incentive return on equity (ROE) for investments in successful RTPs. Candidate RTPs eligible to receive ROE incentives would include projects that satisfy a utility's RES and projects creating transmission capacity for exporting or importing the state's renewable energy resources.

5) Description of Deliverables:

A preliminary Interim Report will be submitted to the RTTF by 4/1/2009 as input to the April Workshop. There was general consensus this was a reasonable deadline. The subcommittee will support the RTP Workshop(s) by recommending project financing mechanisms that can be discussed there.

A Final Report will be prepared and provided to the RTTF by 9/1/2009. A draft form of Order will be included with this report.

6) Next Steps:

At Meeting No. 2, the subcommittee will review and finalize the input for the April Workshop. The subcommittee will also review the subject outline and content of the Interim Report to the RTTF.

Project Finance Subcommittee Meeting No. 2:

Wednesday, March 4, 2009
10:00 AM – 12:00 PM
12:00 PM – 1:00 PM (lunch)

SRP PERA Club
1 E. Continental Drive
Tempe, AZ 85281-1053

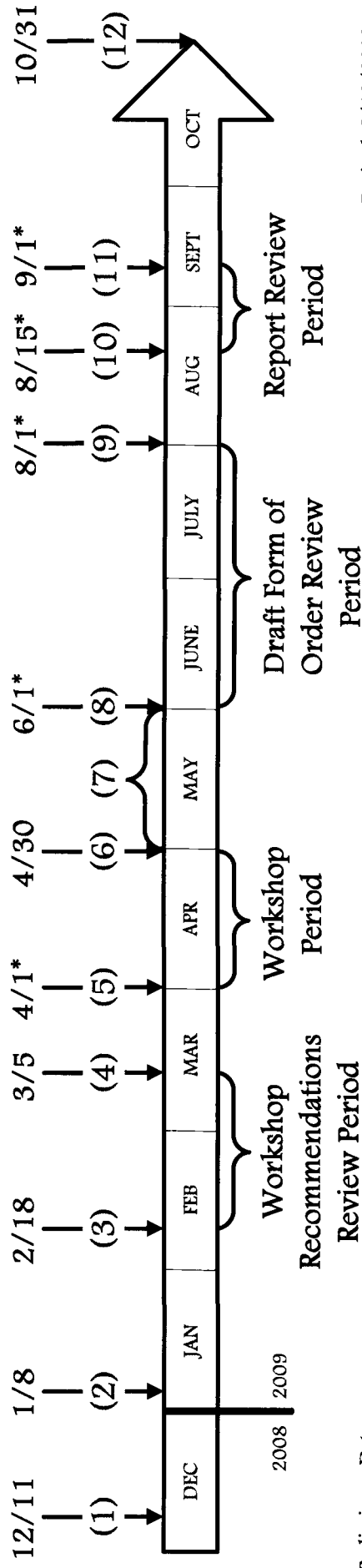
7) **Adjourn: 3:56 PM**

Attachment A: RTTF Project Finance Subcommittee Timeline

Attachment A

ACC Order No. 70635: RTTF Project Finance Subcommittee Timeline

- (1) 12/11/08 ACC issues Order No. 70635
- (2) 1/8/09 RTTF creates subcommittees: a) AARTIS b) Project Finance
- (3) 2/18/09 Meeting No. 1: Define Scope; Schedule; RTP Definition; Deliverables
- (4) 3/5/09 Meeting No. 2: Finalize Workshop Recommendations
- (5) 4/1/09* Submit Interim Report to RTTF
- (6) 4/30/09 End of Workshop Period per Order No. 70635
- (7) 5/09 Based on Workshop(s), RTTF reviews subcommittee scope of investigation
- (8) 6/1/09* Meeting No. 3: Discuss and develop Draft Form of Order
- (9) 8/1/09* Meeting No. 4: Conclude Review of Draft Form of Order
- (10) 8/15/09* Issue Draft Report to Subcommittee
- (11) 9/1/09* Issue Final Report to RTTF with recommended Form of Order
- (12) 10/31/09 Utilities respond to order No. 70635: "...funding mechanisms... shall be filed with the Commission no later than October 31, 2009..."



*Preliminary Dates

Revised: 2/18/2009



Appendix D

Meeting No. 2
March 4, 2009

i. Agenda

**Southwest Area Transmission (SWAT) Study Group
Renewable Transmission Task Force (RTTF)**

**Project Finance Subcommittee
MEETING NO. 2 AGENDA**

Wednesday, March 4, 2009
10:00 AM – 12:00 PM
12:00 – 1:00 PM Lunch

SRP PERA Club
1 E. Continental Drive, Tempe, AZ 85281-1053
Big Horn Terrance Conference Room

- 1) Welcome
- 2) Introductions and Sign-In
- 3) Review Agenda
- 4) Review and Approve Meeting No. 1 Minutes (2/18/2009)
- 5) Discussion of Cost Recovery Methodologies
- 6) Renewable Transmission Project (RTP) Subscription Methodologies and
Developing Policy
- 7) RTP Working Definition
- 8) Interim Report: Outline Contents (Submittal deadline: 4/1/2009)
- 9) Next Steps and Meeting Schedule
- 10) Adjourn

Appendix D

Meeting No. 2
March 4, 2009

ii. Roster

SWAT Renewable Transmission Task Force Project Finance Subcommittee

Sign-in Sheet

	Name	Organization	Phone	E-mail
<i>BJA</i>	Albert, Brad	APS	(602) 250-2347	bradley.albert@aps.com
	Bagley, Ken	Harcuvar Transmission Project	(623) 748-8989	kabagley@cox.net
<i>CB</i>	Bailey, Cindy	SouthWestern Power Group	(602) 808-2004	cbailey@southwesternpower.com
	Bantu, Ravi	RES Americas Inc	(303) 579-6345	ravi.bantu@res-americas.com
<i>Greg</i>	Bernosky, Greg	APS		gregory.bernosky@aps.com
<i>Phone</i>	Belval, Ron	TEP	(520) 745-3420	RBelval@tep.com
<i>Brandt</i>	Brandt, Jana	SRP	(602) 236-5028	jana.brandt@srpnet.com
<i>Charters</i>	Charters, James H.	Western States Energy Solutions	(623) 572-7972	J.Charters@msn.com
<i>Phone</i>	Cobb, Antoine	APS	(602) 250-2547	antoine.com@aps.com
<i>ZZ</i>	Cole, Brian	APS		Brian.Cole@aps.com
	Estrada, Giancarlo	Arizona Corporation Commission	(602) 542-3622	gestrada@azcc.gov
	Getts, David	SouthWestern Power Group/SunZia	(602) 808-2099	Dgetts@southwesternpower.com
<input checked="" type="checkbox"/>	Groves, Jack	POWER Engineers	(505) 898-8964	igroves@powereng.com
<input checked="" type="checkbox"/>	Kondziolka, Robert	Salt River Project	(602) 236-0971	rekondzi@srpnet.com
	Krzykos, Peter	APS	(602) 250-1649	peter.krzykos@aps.com
	Loehr, Jeff	SRP Transmission System Planning	(602) 236-0972	jeff.loehr@srpnet.com
	McMichael, Richard			richardmcmichael@bp.com
	Ormond, Amanda	Interwest		aormond@msn.com
<i>RR</i>	Rasmussen, Brian	Bright Source Energy	(602) 357-8016	brasmussen@brightsourceenergy.com
	Smolden, Russell	SRP	(602) 236-2834	rdsmolden@srpnet.com
	Stahlhut, Jonathan	APS	(602) 250-1116	Jonathan.Stahlhut@aps.com
<i>AB</i>	Tobin, Richard	Richard W. Tobin II, LLC	(623) 202-9298	Richard.tobin@azbar.org
<i>Williamson</i>	Williamson, Ray T.	AZ Corporation Commission	(602) 542-0828	rwilliamson@cc.state.az.us
<i>Woodall</i>	Woodall, Laurie	K.R. Saline & Associates	(480) 610-8741	law@krsaline.com
<i>Wray</i>	Wray, Tom	SouthWestern Power Group	(602) 808-2004	twray@southwesternpower.com
	<i>Johnson, Jeffrey</i>	<i>APS</i>	<i>(602) 250-2661</i>	<i>Jeffrey.Johnson@aps.com</i>

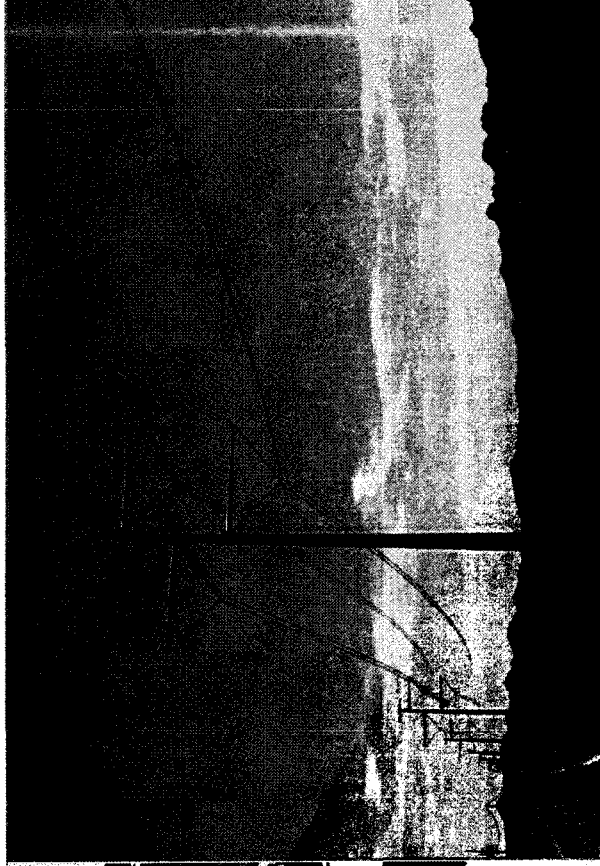
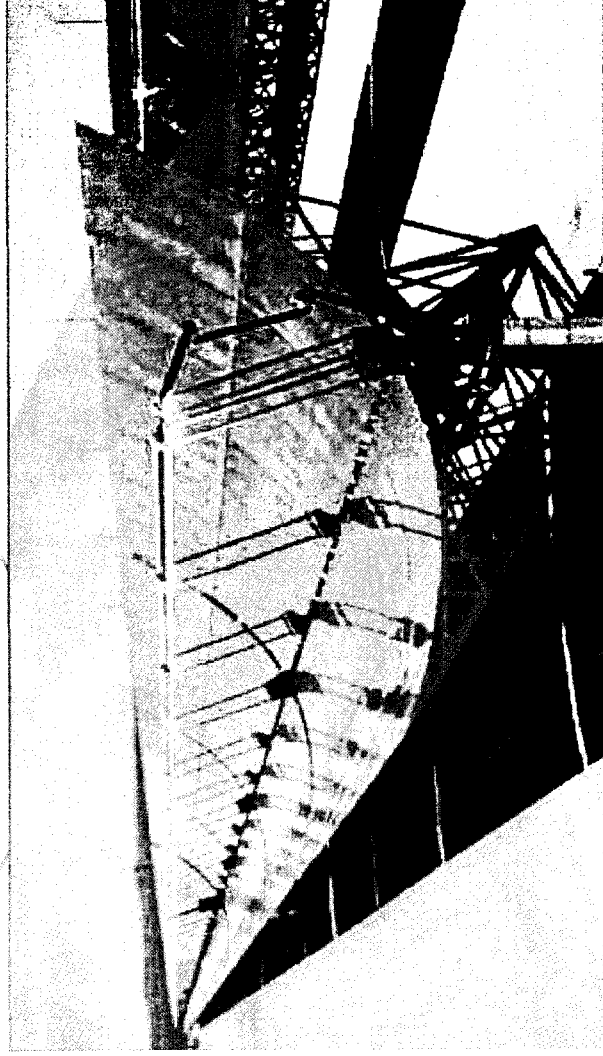
Appendix D

Meeting No. 2
March 4, 2009

iii. Presentation Materials



RTTF PROJECT FINANCE SUBCOMMITTEE



Meeting No. 2
March 4, 2009
Chairman: Tom Wray

Welcome

■ Please state your name and organization

■ Sign-In Sheet

- Please initial next to your name. If you are not listed, please fill in your contact information

Agenda

- Review and Approve Meeting No. 1 Minutes
(2/18/2009)
- Discussion of Cost Recovery Methodologies
- RTP Subscription Methodologies and Developing Policy
- RTP Working Definition
- Interim Report: Outline Contents
 - (Submittal Deadline: 4~1~2009)
- Next Steps and Meeting Schedule
- Adjourn

Cost Recovery Methodologies for Determining Project Feasibility

★ Cost-Basis Candidates ★

- 1.0 Preliminary engineering and environmental investigation costs
 - Line layouts; field work; tower selection; corridor utilization; environmental fatal-flaw screening; visual simulations cultural-biological-plant resource screening

2.0 Technical Study Costs

- Power flows; contingency analysis; interconnection impact studies

3.0 Survey and Mapping costs

- GIS shape file data gathering and manipulation; aerial photography; field surveying; map production

Cost Recovery Methodologies for Determining

Project Feasibility

★ Cost-Basis Candidates ★

4.0 Preliminary ROW acquisition costs

- Reconnaissance of federal/state land lease availability; option cost/terms on fee land acquisition; easement applicability

5.0 Project formation and development costs

- Legal support; project company formulation (corporation, LLC, tenant-in-common, etc); ownership distribution (divided; undivided, etc); financing impacts (capital structure, ROE hurdle rates, etc); ownership of project's accumulated intellectual property (permits, orders, licenses, design, engineering, leases, etc)

6.0 Project abandonment costs

- Recovery of all prudently-incurred “walk-away” costs by jurisdictional utilities

Incentives for RTP Development

1.0 Business as Usual

- 1.1 Utility invests in RTPs to satisfy RES only
- 1.2 Commission allows Base ROE only; Full Recovery of prudent costs

2.0 Utility goes Beyond RES

- 2.1 Utility invests in RTPs to exceed RES minimums
- 2.2 Commission allows Base ROE and Incentive; Full Recovery of prudent costs

Incentives for RTP Development (continued)

For each jurisdictional utility, ROE allocation choices become:

	RTP In-State	RTP Export
Greater than RES	BASE & INCENTIVE	BASE & INCENTIVE
Less than or Equal to RES	BASE	Irrational Area

Where:

Base = Last highest ROE granted in a Rate Case Order by the Commission to the subject utility

Incentive = ROE “adders” to encourage RTP development (see accompanying chart for examples)

Incentives for RTP Development (continued)

Incentive ROE = X basis point adder following a pro-forma schedule, such as (example):

Basis Point Adder	Renewable Capacity
A	10 %
B	20 %
C	30 %

Where “Incremental Renewable Capacity” is the additional amount of renewable megawatts (expressed as a % of the posted TTC of the RTP) of bona fide renewable generation wheeled, under terms of FERC-filed transmission service agreements with a renewable generator customer.

RTP Subscription Methodologies & Developing Policy

Arizona needs to define its own policy for developing RTPs or the federal government will do it for Arizona.

Following Slides address:

- Methods of acquiring commercial interest necessary to develop RTPs
- Recent activity at FERC
- Current developments at Congress

RTP Subscription Methodologies

1.0 Subscription Methods

1.1 Capacity Open Seasons

1.1.1 Pre-Bid Credit Screening

1.1.2 Non-refundable Bid Deposits

1.1.3 Ranking by Highest Bid; Culling Low Bidders; Re-Bids

2.0 Request for Proposals

2.1 Often follow Open Season Process

2.2 May be for lease participation or ownership

2.3 Typically yield unclear results and indication of real interest in proposed project

RTP Subscription Methodologies (continued)

3.0 Auctions

- 3.1 Have worked best as a market evaluation of the value of congestion relief
- 3.2 Results of Highest Bid may not always meet the earnings expectation of a developer

4.0 Capacity Options

- 4.1 Most effective for a project developer if done through bi-lateral contracts
- 4.2 May be per se discriminatory or uncompetitive without a FERC order
- 4.3 Requires option holder to assume regulatory risk as option is purchased prior to FERC-approved tariff
- 4.4 Option strike date is the date FERC approves project tariff
- 4.5 At strike date, Option has no value

RTP Subscription Methodologies (continued)

5.0 Bi-Lateral Contracts

- 5.1 Most desirable method of capacity allocation to developer
 - 5.1.1 Captures “best” of above methods (1.0 – 4.0)
 - 5.1.2 Credit screening; most financeable transmission service contracts, etc.
 - 5.1.3 Basis of “anchor tenant” model (recent FERC activity)

6.0 Capacity Options

How are conditions of undue preference and discrimination avoided?

Federal Policy Affecting RTP Development

1.0 Recent FERC Rulemaking

1.1 “Chinook – Zephyr Order” [Docket No. ER09-432-000]

1.1.1 Summary of Order

1.1.1.1 Abandoned ten-year old 10-criteria analysis for a 4-factor basis:

- (a) Just and Reasonable Rates
- (b) Potential for Undue Discrimination
- (c) Potential for Undue Preference (esp. Affiliate Preference)
- (d) Regional Reliability and Operational Efficiency

- 1.1.1.2 Agreed with applicant’s bi-lateral reservation of half (1500 MW in each line) of both Chinook and Zephyr (500 kV DC lines rated 3,000 MW, each)

Federal Policy Affecting RTP Development

(continued)

- 1.1.1.3 Reserved capacity was for “anchor tenant”
- 1.1.1.4 Rates charged may reflect level of market risk for construction assumed by project owner (ie: Incentive ROE)
- 1.1.1.5 FERC reasoned anchor tenants necessary to project financing (i.e.: half of capacity pre-subscribed; avoids “open season”)
- 1.1.1.6 FERC will increase scrutiny when load-serving utility affiliates are involved as anchor tenants to prevent undue preference (i.e.: avoidance of subsidy by affiliate LSE’s captive customers)
- 1.1.1.7 If in an RTO with ISO control, no extra reliability requirements needed; if not (i.e.: non-CAISO portion of WECC), bi-laterals, OATT tariffs and Order 890 will govern

Federal Policy Affecting RTP Development

(continued)

1.2 “Tallgrass and Prairie Wind” Orders [Docket No. ERO9~35~000; ERO9~36~000] (12~2~2008)

1.2.1 Summary of Order

1.2.1.1 Projects are 765 kV AC in Oklahoma (Tallgrass) and Kansas (Prairie Wind); both within SPP jurisdiction

1.2.1.2 FERC approved a 150 bp adder to the Applicant’s base ROE s of 10.8 %; a 50 bp adder if the project companies joined the SPP and allow SPP operational control of both projects; allowance of CWIP into rate base; full recovery of abandonment costs if prudently incurred; and inclusion of development costs as a regulatory asset if prudently incurred.

Federal Policy Affecting RTP Development

(continued)

1.2.1.3 Note excerpt from Commissioner Kelly's partial dissent in supporting the Order while citing from FERC Order No. 697~A:

"...the most compelling case for incentive ROEs are new projects that present special risks or challenges, not routine investments made in the ordinary course."

2.0 Congressional Developments

2.1 Senator Reid's Bill: S. 2076

2.1.1 Title: "Clean Renewable Energy and Economic Development Incentives Act" (date: 9~20~2007)

2.1.2 Potential developing RTP definition at Congress

Federal Policy Affecting RTP Development

(continued)

- 2.1.2.1 Defines “national renewable energy zones” (REZ) as: areas capable of 1 GW or more; also lacking sufficient transmission; and, is expandable in renewable energy generation; REZs designated by the President. (Page 11)
- 2.1.2.2 Defines “renewable energy trunkline” as: reaching into remotely located REZs; foster additional renewable energy generation development; and, has at least one renewable energy generation interconnection agreement executed (Page 15)
- 2.1.2.3 Requires minimum of 75 % of the transmission line is used by renewable energy resources to obtain federal loan guarantees (Page 18)

.....

Renewable Transmission Project (RTP)

★Working Definition★

GROUP DISCUSSION

Project Finance Subcommittee Interim Report to RTTF

DUE DATE: 4~1~2009

Proposed Contents:

1. Introduction
2. Executive Summary
3. Summary of Subcommittee Work to date
4. Proposed Work Plan for May – August 2009
5. Appendices
 - (a) Agendas
 - (b) Minutes
 - (c) Presentations
 - (d) Rosters

Next Steps

Prepare/Circulate/Finalize Interim Report:

1. 3~18~2009: Circulate DRAFT for comments.
2. 3~25~2009: Comment Deadline.
3. 3~27~2009: Circulate New DRAFT.
4. 4~1~2009: Issue Interim Report to Chairman of RTTF and SWAT

.....

Subcommittee Contact Information

Cindy Bailey

cbailey@southwesternpower.com

Tom Wray

twray@southwesternpower.com

SouthWestern Power

Main Phone: (602) 808-2004



Appendix D

Meeting No. 2
March 4, 2009

iv. Minutes



SWAT RTTF Project Finance Subcommittee
Meeting No. 2
March 4, 2009

Revised Minutes

Attendees:

Albert, Brad
Bailey, Cindy
Belval, Ron
Bernosky, Greg
Brandt, Jana
Charters, James

Cobb, Antoine
Cole, Brian
Groves, Jack
Johnson, Jeffrey
Kondziolka, Robert
Rasmussen, Brian

Tobin, Richard
Williamson, Ray
Woodall, Laurie
Wray, Tom (chairman)

Meeting Notes:

1) Introductions

All meeting attendees at the SRP PERA Club and on the conference line identified themselves and the organizations they represent.

2) Discussion and Review of the Meeting No. 1 Draft Minutes (2/18/2009)

Brian Cole from APS via e-mail dated March 3, 2009¹ had provided the subcommittee with comments and proposed revisions to Section 4 (b) of the Draft Minutes for Meeting No. 1, and a proposed definition of "Renewable Transmission Project" ("RTP").

The subcommittee discussed Mr. Cole's comments and noted there were differing views regarding a definition of RTP and agreed with Mr. Cole's comments that that a consensus for a RTP definition was not achieved at Meeting No. 1. There was also a discussion regarding the alternate definition of RTP proposed by Mr. Cole in his e-mail. The subcommittee did not reach consensus on Mr. Cole's proposed alternate definition of RTP. The subcommittee agreed the Minutes of Meeting No. 1 would be modified to incorporate Mr. Cole's requested revisions. The subcommittee also agreed that all Minutes will be included as an appendix to the Interim Report, which will be submitted to the chairman of SWAT and the chairman of the Renewable Transmission Task Force.

¹ Attached to these minutes as Exhibit 1.

3) Discussion of Cost Recovery Methodologies

The subcommittee discussed the RTP development costs incurred by jurisdictional utilities that may be eligible for cost recovery. Brad Albert, from APS, raised the issue of long-lead time development costs that should be considered as expenditures eligible for cost recovery. The subcommittee discussed how the "chicken-and-egg" dilemma of transmission and renewable generator development might be addressed by cost recovery mechanisms and earnings incentives that address the financial risks utilities undertake in determining feasibility and implementing RTPs.

Greg Bernosky, from APS, noted the possible consequences RTP designation will have on establishing a project's proposed "purpose and need." Mr. Bernosky suggested that because RTPs encourage the development of renewable energy resources, the Arizona Corporation Commission and the Line Siting Committee may consider other factors regarding need than those considered previously. The subcommittee discussed the differing characteristics between a RTP and a more typical transmission project ("business-as-usual"):

a.) RTPs may have a greater "need" justification, and may be more in the public interest than business-as-usual transmission projects.

b.) RTPs are developed specifically to access the renewable energy needed to meet Arizona's Renewable Energy Standard ("RES") or to enable the state of Arizona to export renewables.

c.) RTPs vary from business-as-usual transmission projects in that they may encounter additional siting obstacles in order to access renewable resources because of the lack of existing corridors into remote areas and the need to establish new rights-of-way.

d.) Renewable energy resources are often remote and accessing them may require traversing environmentally-sensitive resource areas. Policy makers may need to consider trade offs between the need for access to a renewable area and impacts on environmentally sensitive lands.

Robert Kondziolka, from SRP, noted that an RTP specific "need" designation should not eliminate the need for environmental siting evaluations, statutory siting standards and mitigation strategies to be undertaken by transmission developers applying for a state certificate of environmental compatibility.

The chairman presented several ideas related to cost recovery by RTPs for subcommittee review and discussion:

a.) Investments in RTPs that meet the RES should be awarded full recovery of prudent costs, with a base ROE (the highest and most recent ROE granted in a rate case order by the Commission).

b.) Additional incentives for RTPs that deliver renewable energy in quantities that exceed the RES goals.

c.) RTPs which exceed the RES goals could be rewarded the same full prudent cost recovery, a base ROE and an incentive ROE determined by the "incremental renewable capacity" added above that necessary to meet a RES.

d.) Incremental renewable transmission capacity is calculated as a percentage of the posted total transfer capacity ("TTC") of the RTP that exceeds the RES-mandated capacity. Such financial incentives might thereby encourage utilities to invest in RTPs that exceed Arizona's RES.

Brad Albert raised the concern of how utilities will determine whether an RTP meets or exceeds the RES because utilities do not classify "RES Megawatt hours ("MWhs")", nor above "RES MWhs.". Mr. Albert also expressed his support for the definition of RTP proposed by Mr. Cole.

There was a discussion relating to the definition of RTP and its effect on incentive rates and how incentive rate treatments can be effectively applied to qualifying RTPs.

There was also a discussion regarding more work by the subcommittee in the area of applying base ROEs and incentive ROEs to encourage RTP development. Jack Groves noted that once incentive ROEs are set they should be a floor level value for at least "life of financing" or similar time period, so the pro forma financial models assure the long term performance of the asset to financial institutions, equity participants and regulators. There was also a discussion regarding a determination of incentive ROE eligibility, based upon a utility's RES compliance, before the utility commits financial resources for development of an RTP.

4) Discussion of RTP Subscription Methodologies and Developing Policy

The chairman presented various RTP subscription methodologies for the subcommittee's review and discussion:

1.) Bilateral contracts were discussed as a suitable subscription methodology for RTPs.

2.) An anchor tenant model may also be useful to RTP development because it may provide both utilities and merchants with assurances of an adequate customer base that makes the project financeable.

The chairman also presented the recent FERC Chinook-Zephyr Order for the subcommittee's review and discussion whether the order may affect RTP development in Arizona. The applicants for these projects were granted the ability to reserve 50% of their transmission capacity for bilateral anchor tenants. The Tallgrass and Prairie Wind projects were also discussed as examples of incentive ROEs granted, at the federal level, to transmission projects accessing wind energy generation inside the Southwest Power Pool region.

The chairman provided a written presentation for the subcommittee's review. It included an excerpt from FERC Commissioner Kelly's comments in her dissent to FERC Order No. 697-A:

*"...the most compelling case for incentive ROEs are new projects that present special risks or challenges, **not routine investments made in the ordinary course.**"*

The subcommittee then discussed the need to create a distinction between what is considered routine investments versus investments deserving financial incentives intended to promote RTP development in Arizona.

5) Discussion of RTP Working Definition

Senator Harry Reid's Bill (S. 2076 "Clean Renewable Energy and Economic Development Incentives Act"; 9/20/2007) was discussed as this bill provides a potential RTP definition being considered at the Congressional level. A "renewable energy trunkline" is defined in the bill as a transmission facility designed to access remotely located Renewable Energy Zones, foster additional renewable energy generation development, has at least one executed renewable energy generation interconnection

agreement, and 75% of the line is to be used by renewable energy resources in order to qualify for federal loan guarantees.

The subcommittee did not reach consensus on a definition of an RTP.

6) Interim Report: Outline Contents

The subcommittee discussed the Interim Report that is due by 4/1/2009. The chairman proposed the contents of the Interim Report to include the following:

1. Introduction
2. Executive Summary
3. Summary of Subcommittee Work to date
4. Proposed Work Plan for May through August 2009
5. Appendices
 - a. Agendas
 - b. Minutes
 - c. Presentations
 - d. Rosters

The subcommittee subsequently approved the Interim Report outline with the exception of item (4) as a proposed work plan should be developed by the subcommittee after the conclusion of the April Workshop(s).

7) Next Steps and Meeting Schedule

The chairman proposed a schedule to complete the Interim Report as follows:

1. 3/18/2009 Circulate draft for comments
2. 3/25/2009 Comment deadline
3. 3/27/2009 Circulate revised draft for comments
4. 4/1/2009 Issue Interim Report to the Chairmen of RTTF and SWAT

The subcommittee approved this schedule and agreed it allowed adequate time to prepare, circulate, and finalize the Interim Report by the final submittal deadline to the chairmen of both the RTTF and SWAT.

Project Finance Subcommittee Meeting No. 3:

To be Determined following the April Workshop(s)

8) Adjourn: 1:12 PM

Exhibit 1

I have a couple of comments to the draft Minutes from the first meeting...as well as some thoughts about the definition of a Renewable Transmission Project.

Section 4 (b) (Scope) of the draft Minutes discusses the definition of a Renewable Transmission Project (RTP). There were several comments related to concern about each of the definitions that were laid out as part of the presentation...that fact should be clearly stated in the minutes. You did appropriately say that the general consensus was that further discussion of the definition was warranted - as it is. Several people pointed out issues related to any definition that required repeated "analysis after-the-fact" to see if a transmission project was still appropriately designated as an RTP - this would be a difficult situation since the future use of a project would not necessarily be controlled by the owners of the line due to Open Access Transmission Tariff requirements and the obligation of Transmission Providers to provide non-discriminatory open access to their transmission systems. This would make any economic analysis of a project difficult and uncertain.

Also in the draft Minutes, I don't believe that there was any consensus of the statement that: "There is clearly a need to create measurable protocols that establish initial and ongoing RTP status." and as such, it should be removed from the Minutes.

Generally, I don't think the definition needs to be so explicit. Recall that the purpose of the Order is aimed at the development of transmission "...that will support the growth of renewables in Arizona". Our overarching goal here should be to provide ways to support the building of transmission projects that will support that growth in renewables in Arizona...because of that goal, we should make the definition fit that goal - not constrain it.

Having said that, in order to create further discussion on the subject, here is a possible proposed definition for renewable transmission:

Renewable Transmission Project" (RTP) shall be defined as a transmission project that is either new transmission line or group of lines or an upgrade of an existing line or group of lines that fulfills at least one of the following:

- Provides additional direct transmission infrastructure access to renewable resource areas within the state of Arizona that have either already identified renewable energy resources or those likely to contain renewable energy resources*
- Provides additional delivery of a renewable resource located and/or gathered in the State of Arizona to a load center (Note: these projects may not directly connect the renewable resources to the transmission system but are needed to move the resource to the load centers [where such load centers are either within Arizona or outside of Arizona])*

* Each of these requirements must show that the potential amount of renewable resources available to utilize increases transmission capacity is at least as great as the expected increased capacity to move resources on the RTP - through queues/ NREL data/Studies/Etc. This classification is determined up front and is not dependent on future actual use of the line(s)